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# OFFICE OF MEDICAID POLICY AND PLANNING

## Budget Analysis Report for Fiscal Years 2004 Through 2007

*Presented to the Budget Committee*
*December 14, 2004*

## EXECUTIVE SUMMARY

The Office of Medicaid Policy and Planning (OMPP) is pleased to present the Budget Committee with an update of the 2004-2005 Medicaid Forecast as well as the initial 2006-2007 Medicaid Forecast (Medicaid and CHIP are combined). The forecast is developed on an incurred basis and is based on paid claims data through October 31, 2004. For future reference, this will be referred to as the December 2004 Forecast. The following Appendices are included for your review:

- Appendix A presents the Medicaid and CHIP Expenditure Forecast for SFY's 2002 through 2007.
- Appendix B presents the projected Funding Sources for SFY's 2004 - 2007 and includes all the interfund transfers from other state agencies, which results in the forecasted expenditure for the Medicaid Assistance account appropriation.
- Appendix C summarizes the major cost containment initiatives for SFY's 2002 – 2007.
- Appendix D presents actual and projected enrollment for SFY's 2002 – 2007.
- Appendix E summarizes growth rates, cost components and cost containment for SFY's 2002 – 2007.
- Appendix F provides an overview of the Medicare Part D pharmacy benefit and the projected fiscal impact to the State.

The presentation and the remainder of this document will focus on the following key points:

- Medicaid will close the current biennium $9.9 million under total appropriations. This was due in part to the receipt of enhanced federal match that was received in SFY 2004. It was also due to cost containment of approximately $352 M (state dollars), representing 9.9% of total state expenditures.

- While the average Medicaid growth rate for 2002-2007 (7.8%) is lower than that of the national Medicaid average (9.0%), the rates of growth are still increasing significantly. The projected Medicaid Assistance growth rates for 2006 (11.8%) and 2007 (10.8%) present significant budgetary challenges.

- OMPP's focus for the 2006-2007 biennium will be on making policy and program changes that will attempt to slow the rate of growth by improving health outcomes and providing care in a more cost effective manner, such as pharmacy benefit management, disease and case management and managed care for aged, blind and disabled recipients.

- While the focus will be on slowing the rate of growth, ongoing/additional cost containment will be required. In addition, the cost containment that has been implemented to date must remain in effect in the 06-07 biennium. Should those two things not occur and/or if any new mandates with a fiscal impact are passed in the upcoming session, forecasted expenditures will increase even more.

Table 1, on the following page, shows expenditures and growth rates for SFY's 2002-2007 for total expenditures (state and federal), state share only and Medicaid Assistance account appropriation only.

**Table 1**
**Forecasted Medicaid Expenditures – Total, State and Medicaid Assistance**

| Forecasted Expenditures | SFY 2002 | Growth | SFY 2003 | Growth | SFY 2004 | Growth | SFY 2005 | Growth | SFY 2006 | Growth | SFY 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total (State & Federal)** | $3,787.3 | 3.9% | $3,934.5 | 9.5% | $4,309.8 | 8.0% | $4,654.8 | 9.8% | $5,108.9 | 10.1% | $5,627.3 |
| **State Share** | $1,431.4 | 1.8% | $1,456.9 | 2.5% | $1,492.9 | 15.9% | $1,730.5 | 8.7% | $1,881.2 | 10.9% | $2,087.0 |
| **Medicaid GF Assistance*** | $1,107.1 | 6.9 % | $1,182.9 | (6.6)% | $1,105.4 | 20.4% | $1,330.6 | 11.8% | $1,487.3 | 10.8% | $1,648.4 |

*The state received enhanced federal match in SFY04. A significant portion of the growth rates in SFY04-05 is attributable to the enhanced match.

## 2004-2005 Biennium

In January, OMPP projected a $21.7 M budget deficit for the 2004-2005 biennium. Through a combination of factors (cost containment, new revenue, enhanced federal match rates and enrollment and utilization changes) as well as a surplus from SFY 2003, OMPP expects to end the biennium with a surplus of $9.9 million. Table 2 shows the reconciliation of the updated Medicaid Forecast for 2004-2005 biennium compared to the forecast presented in January 2004.

**Table 2**
**SFY 04 & 05 Reconciliation**

| | SFY 2004 | SFY 2005 |
|---|---|---|
| **Forecasted Expenditures – State Share** | $1,492.9 | $1,730.5 |
| **Interfund Transfers** | ($331.7) | ($374.1) |
| **New Revenue** | ($26.6) | ($15.2) |
| **Cash Adjustment** | $0.9 | ($10.6) |
| **Fiscal Relief FFP** [1] | ($30.1) | |
| **Forecasted Expenditures - Medicaid GF Assistance** | $1,105.4 | $1,330.6 |
| **GF Appropriation** | $1,209.6 | $1,209.6 |
| **Shortfall/Surplus** | $104.2 | ($121.0) |
| **Carryover from SFY 03** | $26.7 | |
| **Net Surplus** | | $9.9 |

1. Fiscal Relief FFP is the one-time federal fiscal relief from SFY '03 that OMPP was unable to receive until SFY '04 due to administrative procedures associated with the new law.

A summary of the major changes in the forecasted expenditures from the January 2004 is provided in the table below.

| Major Changes | SFY 2004 | SFY 2005 |
|---|---|---|
| January 2004 Incurred Forecast | $1,514.8 | $1,785.3 |
| Cost Containment | ($0.4) | ($16.3) |
| Enrollment & Utilization Changes | ($9.3) | ($16.8) |
| MRO, Waiver, Other Interfund Changes | ($9.5) | ($16.3) |
| Timing and Other Differences | (2.7) | (5.4) |
| December 2004 Incurred Forecast | $1,492.9 | $1,730.5 |

While enrollment continued to grow in 2004 and 2005, it did not increase to the levels that had been expected in the January 2004 Forecast Update for our higher cost individuals (Full-Medicaid aged, and disabled). Table 3 provides a comparison between the June 2005 enrollment as of the January 2004 Forecast Update and the June 2005 enrollment as of the current Forecast Update (i.e. December 2004).

**Table 3**
**Comparison of June 2005 Enrollment Forecast**

| Aid Category | January 2004 Analysis | December 2004 Analysis | Increase / Decrease |
|---|---|---|---|
| Full Medicaid – ABD | | | |
| Aged | 57,908 | 57,167 | (741) |
| Blind/Disabled Non-Dual | 69,451 | 67,470 | (1,981) |
| Blind/Disabled Dual | 39,965 | 39,036 | (929) |
| Partial Medicaid – ABD | | | |
| Aged | 9,136 | 9,628 | 492 |
| Blind/Disabled | 10,150 | 11,430 | (1,280) |
| TANF and Related Children | | | |
| Adults | 109,664 | 107,607 | (2,057) |
| Children | 452,466 | 459,241 | 6,775 |
| Pregnant Women | 22,692 | 24,146 | 1,454 |
| CHIP | | | |
| CHIP I | 49,673 | 50,485 | (1,618) |
| CHIP II | 21,811 | 20,916 | 1,288 |
| All Aid Categories | 842,916 | 847,126 | 4,210 |

Though enrollment is projected to be 4,210 more than what was projected in January 2004, the mix of the population is extremely important. During this time period the projected number of higher cost Full Medicaid Aged and Disabled decreased by 3651. This is significant because the average yearly cost of an aged, blind or disabled person is $9,080 per year compared to the average yearly cost of adults and children at $2,226 per year. This population mix accounts for a large portion of the change due enrollment between the January and December 2004 forecasts.

## 2006-2007 Biennium

Total Medicaid expenditures (state and federal) are forecasted to be $5.1 Billion for SFY 2006 and $5.6 Billion for SFY 2007. This represents a 9.8% rate of growth for SFY 2006 and 10.1% for SFY 2007. To reiterate, this is state and federal funds and includes expenditures for other state programs that are not part of the Medicaid Assistance appropriation.

## ENROLLMENT

### A. Aid Category Trend Projections

Enrollment is expected to account for approximately 5.2% of the projected overall increase. Enrollment values are calculated for ten separate aid categories. Table 4 illustrates historical and projected enrollment as of June for each fiscal year by aid category. By the end of the 2006-2007 biennium, enrollment is projected to be 936,294.

**Table 4**
**Summary of Historical and Projected Enrollment**
**June FY Enrollment for FFS/PCCM and RBMC Enrollees**

| Aid Category | June 2004 | June 2005 | June 2006 | June 2007 |
|---|---|---|---|---|
| Full Medicaid – ABD | | | | |
| Aged | 56,578 | 57,167 | 57,595 | 58,171 |
| Blind/Disabled Non-Dual | 63,957 | 67,470 | 70,844 | 74,032 |
| Blind/Disabled Dual | 36,623 | 39,036 | 41,768 | 44,483 |
| Partial Medicaid – ABD | | | | |
| Aged | 8,620 | 9,628 | 16,829 | 27,689 |
| Blind/Disabled | 9,500 | 11,430 | 12,287 | 12,902 |
| TANF and Related Children | | | | |
| Adults | 100,915 | 107,607 | 114,063 | 118,625 |
| Children | 440,305 | 459,241 | 477,611 | 493,133 |
| Pregnant Women | 23,400 | 24,146 | 24,991 | 25,491 |
| CHIP | | | | |
| CHIP I | 47,669 | 50,485 | 52,631 | 54,473 |
| CHIP II | 16,221 | 20,916 | 24,262 | 27,295 |
| Total | 803,786 | 847,126 | 892,881 | 936,294 |

Table 5 shows the projected growth rate increase for the ten separate aid categories.

**Table 5**
**2005-2007 Projected Growth Rates**

| Aid Category | 2005 | 2006 | 2007 |
|---|---|---|---|
| Full Medicaid – ABD | | | |
| Aged | 1.0% | 0.8% | 1.0% |
| Blind/Disabled Non-Dual | 5.5% | 5.0% | 4.5% |
| Blind/Disabled Dual | 6.6% | 7.0% | 6.5% |
| Partial Medicaid – ABD | | | |
| Aged | 11.7% | 74.8% | 64.5% |
| Blind/Disabled | 20.3% | 7.5% | 5.0% |
| TANF and Related Children | | | |
| Adults | 6.6% | 6.0% | 4.0% |
| Children | 4.3% | 4.0% | 3.2% |
| Pregnant Women | 3.2% | 3.5% | 2.0% |
| CHIP | | | |
| CHIP I | 5.9% | 4.2% | 3.5% |
| CHIP II | 28.9% | 16.0% | 12.5% |
| Total | 5.4% | 5.4% | 4.9% |

- **Aged.** Enrollment in the aged category is expected to increase by approximately 14.2% per year. This increase is predominately in the "Partial" Medicaid eligibility category resulting from the projected increase in enrollment due to the Medicare Modernization Act. Though enrollment is projected to be consistent with past experience in the "Full" Medicaid category, we are projecting a "woodwork effect" of Partial Medicaid eligibles in SFY06 due to the additional drug benefit that will be available at that time.

- **Blind and Disabled**. The Blind and Disabled recipients have been separated between Dual eligible (i.e., Medicare and Medicaid eligible) and non-Dual eligible recipients. Overall, enrollment in the blind and disabled aid category is expected to increase by approximately 5.7% per year in the 06-07 biennium. This rate of increase in enrollment for the blind and disabled aid category is lower than the 04-05 biennium, although the rate of increase is consistent with historical experience. While difficult to isolate specific factors driving enrollment growth, it is believed that enrollment growth in the disabled aid category in the 04-05 biennium was due to legislative action and litigation (the Day lawsuit), which made the eligibility criteria less restrictive. This forecast assumes that growth due to legislative actions and lawsuits has leveled off in the 06-07 biennium.

- **Children and CHIP.** For the 2006-2007 biennium, growth has been projected to average 3.7% per year for the Children population and 7.3% per year for the CHIP I and CHIP II populations. The projected enrollment growth for the Children and CHIP populations was developed from historic eligibility patterns and also takes into account that we may be reaching a ceiling in terms of eligible children. The forecast estimates we will have almost 575,000 children (Medicaid + CHIP) in the program by June 2007.

- **Low-Income Adults.** The trend rate for adult enrollment has decreased from the 10% trend rate levels experienced between fiscal years 2002 and 2004. The growth in enrollment for fiscal years 2006 to 2007 has been projected to range around 5% annually. During calendar year 2004, the Adult population has experienced a slowdown in the number of net new enrollees. The slowdown has been projected to continue during the 06-07 biennium, but by doing so, assumes there will be a continued improvement in the economy.

- **Pregnant Women.** Historically we have seen minimal growth rates in this category; however, in the past two years we have seen significant increases that require additonal review to try to determine the cause of the growth.

### B. Mandatory Risk Based Managed Care (RBMC)

Beginning in 2002, OMPP began to transition certain counties to mandatory risk based managed care (RBMC) in the Hoosier Healthwise program, which serves adults and children (referred to as TANF and CHIP populations). To date, OMPP has transitioned 13 counties to mandatory RBMC, with 13 additional counties planned to transition to mandatory in 2005. As a result of mandatory RBMC, there has been a significant increase in RBMC enrollment for the TANF and CHIP populations. RBMC penetration increased from 28% to 64% currently and is projected to grow to 75% once the southern counties transition in 2005. Implementation was phased in by county as follows:

- 2002: Allen, Elkhart, St. Joseph, Lake, and Marion
- 2003: LaPorte and Porter
- 2004: Johnson, Morgan, Delaware, Grant, Howard, and Madison
- 2005: Gibson, Knox, Posey, Sullivan, Vanderburgh, Vigo, Warrick, Clark, Floyd, Harrison, Lawrence, Monroe, and Washington

### C. Enrollment Sensitivity Analysis

Enrollment growth and trend is a critical assumption in the Medicaid forecast. Due to its impact on the accuracy of the forecast, OMPP has performed an enrollment sensitivity analysis that models a 1% change in FY 06 and 07 enrollment assumptions used in this Forecast.

This sensitivity analysis considers the 1% change as an additive adjustment. For example, if we assumed an annual enrollment trend rate of 4%, the sensitivity analysis assumed an annual enrollment trend rate of 5% (i.e., 4% plus 1%). Additionally, the 1% change in the enrollment trend was assumed for each of the two fiscal years, 2006 and 2007. Therefore, if we assumed an annual enrollment trend rate of 4% in 2006 and 3% in 2007, the sensitivity analysis assumed an annual enrollment trend rate of 5% in 2006 and 4% in 2007.

The analysis indicates that a 1% change in total enrollment trends will increase the biennium budget by $65.0 million (state and federal) or $24.2 million (state). For an individual population, the Blind and Disabled-Non-Dual population has the largest potential impact over the biennium – adding $19.8 million (state and federal) for each 1% annual change in enrollment.

## TRENDS - MAJOR CATEGORIES OF SERVICE

The top three expenditures in the Medicaid program are nursing home (18%), pharmacy (17%) and hospital (13%) (SFY 2004). This section highlights the projected utilization and costs for these major categories of service. These values reflect only the fee-for-service and PCCM programs (additional amounts are expended on pharmacy and hospital services through the risk based managed care program but they are included in the capitation payment line item and not in these numbers). Risk based managed care capitation payments as well as home and community based waivers are also included in this section as they are significant and growing components of the Medicaid budget.

### A. Nursing Facility

Nursing facility expenditure growth was (1.8%) in SFY 2004 primarily due to the diversion of Medicaid recipients from nursing facilities to home and community based waiver slots. The 06-07 forecast assumes continued but declining decreases in nursing facility bed days corresponding to increases in diversion and transition waiver slots. Average cost per day is expected to continue to increase. Total nursing facility expenditures are expected to grow 2.5% in SFY 2005, 4.4% in SFY 2006 and 5.4% in SFY 2007.

### B. Hospital

Recently implemented cost containment measures related to hospital reimbursement were implemented November 1, 2004. The cost containment measures are expected to reduce combined inpatient and outpatient growth rates to less than 1% in SFY 2006. This growth rate will return to 8-10% in SFY 2007. For baseline 06-07 inpatient hospital trends we are projecting a decrease in utilization but an increase in cost per unit of service that outpaces the decreased utilization. For baseline outpatient hospital trends, we are projecting increases in both utilization and costs at a higher rate of growth based on national trend information.

### C. Pharmacy

Medicare Part D pharmacy benefits become effective January 1, 2006. At that time, dual eligibles will no longer be eligible for pharmacy coverage under Medicaid (with a few exceptions for drugs that will not be covered by Medicare Part D). As such, federal financial participation will not be available to states for any dual eligible pharmacy expenditures covered by Part D. All dual eligible recipients will be expected to enroll into a Part D plan. Any dual eligibles who do not enroll in a plan will be randomly autoassigned to a Part D plan. There are some significant timing issues in regard to the plan selection and autoassignment that could result in dual eligibles not being in a Part D plan as of January 1, 2006 and also no longer able to receive pharmacy benefits under Medicaid. This could have a significant negative impact on quality of care and

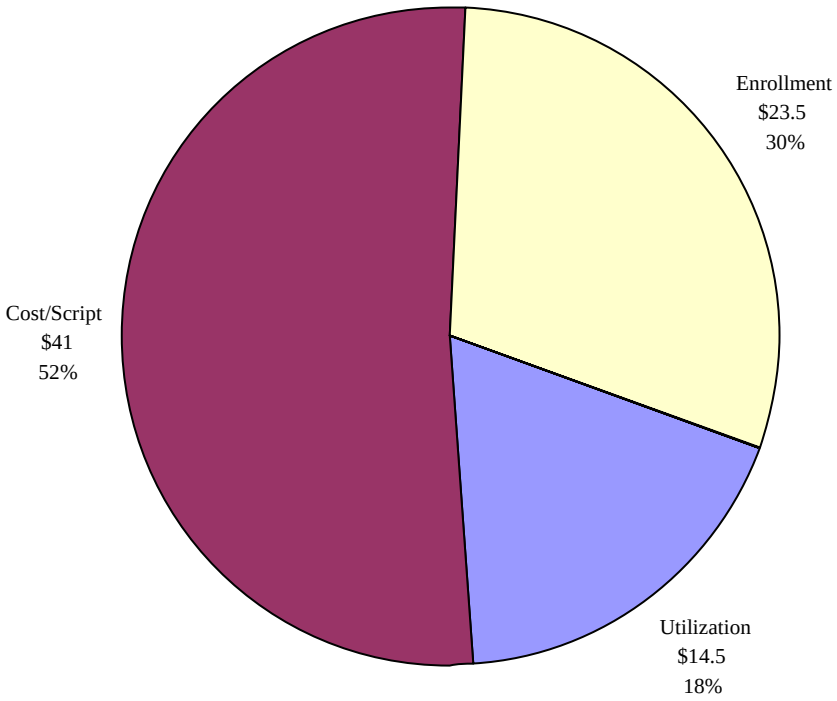
result in cost shifting to other parts of Medicaid if the necessary prescription drugs are not available. Since Medicaid will continue to be financially and clinically responsible for the remainder of Medicaid services provided to dual eligibles today with the exception of pharmacy, we must ensure this does not result in higher medical costs in other parts of the program. Appendix F provides a summary of the Medicare Part D benefit as well as an estimated fiscal impact to Indiana. Please note that the removal of dual eligible drug expenditures has the impact of reducing rebates (OBRA 90 and supplemental) as well as the impact of cost containment initiatives.

The remainder of this section addresses pharmacy expenditures remaining in the Medicaid program (not paid under the Part D benefit). A review of historical utilization, average reimbursement and per member per month costs for Pharmaceutical services for the non-dual populations for fiscal years 2002 through 2004 shows that:

- On a composite basis, per member per month pharmacy costs have increased by 12% to 13% from fiscal year 2003 to fiscal year 2004 for the non-dual populations.
- The number of prescriptions per 1,000 has been increasing by an average of 3% to 4%.
- The cost per drug has been increasing by an average rate of 8% to 9%.

From SFY 2005 to SFY 2006 non-dual pharmacy expenditures are projected to increase from $410 million to $456 million and further increase to $535 million by SFY 2007. The $46 million increase from 05-06 is lower than the $79 million increase from 06-07 due to implementation of mandatory risk based managed care in southern Indiana counties during SFY 2005. The components of the $79 million increase from 06-07 for non-dual eligibles are illustrated below:

**Components of Pharmacy Growth**
**Projected SFY 2007**



The highest pharmacy costs in the non-dual populations are in the blind and disabled aid category. The projected per member per month (PMPM) pharmacy costs for SFY 2006 are expected to average approximately $383 for the blind and disabled compared to an average PMPM of approximately $77 for adults and approximately $38 for children. Of total non-dual pharmacy expenditures, approximately 70% is spent on blind and disabled recipients, which represent only roughly 10% of total non-dual Medicaid enrollment.

## D. Managed Care

In summarizing historical data, capitation payments made to the managed care organizations have been illustrated as a separate service category from the other non-long term care services. In addition to the capitation payments, we have included the Primary Care Case Management (PCCM) payments. In the TANF and CHIP populations, the PCCM administration fee is $3 per member per month. The PCCM administration fee for the Medicaid Select program for the aged, blind and disabled populations is $4 per member per month. The forecasted expenditures shown in Table 6 include the PCCM fees, in addition to the capitation payments and demonstrate that managed care is continuously becoming a larger part of the Medicaid program and budget. Specifically, managed care is forecasted to be 14% of Medicaid expenditures by SFY 2006.

**Table 6**
**Capitation Payment and PCCM Fee Expenditure Forecast**
**Total Expenditures in Millions**

| Population | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|---|---|---|
| Aged | $0.0 | $0.0 | $0.4 | $0.6 | $0.6 | $0.6 |
| DAB Non-Dual | 0.0 | 0.1 | 1.0 | 1.4 | 1.5 | 1.6 |
| DAB Dual | 0.0 | 0.0 | 0.4 | 0.6 | 0.7 | 0.7 |
| **Total Aged, Blind & Disabled** | **$0.0** | **$0.1** | **$1.8** | **$2.6** | **$2.7** | **$2.9** |
| | | | | | | |
| Adults | $61.0 | $106.8 | $132.1 | $170.0 | $214.7 | $234.2 |
| Children | 145.0 | 221.2 | 258.7 | 336.8 | 429.9 | 463.0 |
| CHIP I | 10.2 | 15.7 | 17.8 | 23.1 | 30.5 | 33.0 |
| CHIP II | 2.2 | 4.7 | 6.1 | 9.4 | 15.2 | 18.0 |
| Mothers | 15.5 | 30.5 | 39.1 | 51.3 | 54.9 | 58.6 |
| **Total TANF & CHIP** | **$233.8** | **$378.8** | **$453.7** | **$590.7** | **$745.2** | **$806.7** |
| | | | | | | |
| **Total All Populations** | **$233.8** | **$378.9** | **$455.5** | **$593.3** | **$748.0** | **$809.6** |

## E. Home and Community Based Waivers

Table 7 illustrates projected expenditures in the Home and Community based waiver programs. Indiana has eight home and community based waivers:

- Developmentally Disabled
- Aged and Disabled
- Medically Fragile Children
- Autism
- Traumatic Brain Injury
- Assisted Living
- Support Services
- Seriously Emotionally Disabled

The increase in future expenditures results from an increase in the number of waiver slots available that are funded through the Medicaid program as well as a composite annual expenditure increase of 8% per waiver slot for 06-07. The largest increase is projected for the Developmentally Disabled waiver.

**Table 7**
**Waiver Expenditure Forecast**
**Total Expenditures in Millions**

| Waiver | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|---|---|---|
| Traumatic Brain Injury (TBI) | $2.8 | $3.3 | $3.5 | $3.8 | $4.3 | $5.1 |
| Medically Fragile Children | 1.6 | 1.6 | 1.6 | 1.7 | 2.4 | 3.2 |
| Autism | 7.4 | 9.5 | 12.5 | 13.4 | 14.1 | 15.1 |
| Aged and Disabled | 21.3 | 29.5 | 34.2 | 40.6 | 47.6 | 53.1 |
| Developmentally Disabled | 139.6 | 237.9 | 327.8 | 374.7 | 438.3 | 494.7 |
| Assisted Living | 0.0 | 0.1 | 0.4 | 0.9 | 1.7 | 2.1 |
| Support Services | 0.3 | 10.6 | 27.6 | 33.3 | 40.3 | 45.0 |
| Seriously Emotionally Disabled | 0.0 | 0.0 | 0.0 | 0.7 | 2.2 | 2.9 |
| Total | $173.0 | $292.5 | $407.5 | $469.0 | $550.8 | $621.2 |

## COST CONTAINMENT

OMPP continued to aggressively pursue cost containment throughout the 04-05 biennium – continuing many measures that were begun in 2003 as well as implementing new cost containment measures in 2004. A summary of the estimated savings generated by the major cost containment measures is provided in Appendix C. The summary compares projected expenditures for fiscal years 2002 through 2007 with and without the impact of the cost containment measures. Cost containment savings are illustrated in State only dollars. As can be seen on Appendix E, cost containment averaged 10% of state expenditures in the 2004-2005 and is expected to result in roughly the same level of savings in 2006-2007.

Newly implemented cost containment measures include:

- Supplemental pharmacy rebates
- Expansion of mandatory risk based managed care
- Increase in copay for generic prescription drugs
- Hospital reimbursement policy changes
- Expansion of the State Maximum Allowable Cost (MAC) fee schedule for prescription drugs
- Developmental disability waiver cost containment measures

## CHILDREN'S HEALTH INSURANCE PROGRAM

The Children's Health Insurance Program (CHIP) was authorized in 1997 for a period of ten years. Indiana implemented CHIP in two phases. The first phase, CHIP I, is a Medicaid expansion. It began in July 1998 and expanded enrollment for all children through age 18 up to 150% of the Federal Poverty Level. The second phase, CHIP II, is considered a separate program by the federal government because the benefits are different from Medicaid, although the two programs are seamlessly integrated. It began in January 2000 and expanded eligibility for children to 200% of the Federal Poverty Level.

Federal CHIP allotments are distributed annually to states, and states have three years to spend the allotment. States that do not spend their annual allotment within the three-year timeframe must return the unspent funds. Some of these funds are retained by the state for an additional period of time or redistributed to the states that have spent all of their annual allotment. Indiana received $45 million in the redistribution of remaining 1998 funds and $105 million in redistributed 1999 funds.

States receiving redistributions were given the option to select the order in which they would spend their remaining allotments and the redistribution funds. To maximize funding, Indiana chose to first spend the redistribution funds before additional allotments. A summary of Indiana's federal funding and the order of expenditures is provided in Table 8.

**Table 8**
**Indiana CHIP Federal Funding**

| Order of Expenditures | Amount | Status |
|---|---|---|
| 1998 allotment | $71 M | Spent All |
| 1999 allotment | $70 M | Spent All |
| 1998 *redistribution* | $45 M | Spent All |
| 2000 allotment | $63 M | $6.5M Reverted 10/1/02 |
| 1999 *redistribution* | $105 M | Spent All |
| 2001 allotment | $60 M | 30.0M Reverted 10/1/03 |
| 2002 allotment | $47 M | $23.5M Reverted 10/1/04 |
| 2003 allotment* | $54 M | Projected to Spend All |
| 2004 allotment* | $54 M | Projected to Spend All |
| 2005 allotment* | $73 M | Projected to Spend All |
| 2006 allotment* | $73 M | Projected to Spend All |
| 2007 allotment* | $73 M | |

* These projections assume no change in current federal law that would allocate Indiana additional money beyond the allotment stated above.

The redistribution formula was established under the Benefit Improvement and Protection Act of 2000 (BIPA). BIPA addressed the redistribution methodology for the 1998 and 1999 annual allotments, allowing redistribution states two years to spend the 1998 redistribution and 1999 redistribution funds. Hence, Indiana had until September 30, 2003 to spend the $105 M redistribution funds. Indiana was able to spend all of the $105M in redistributed funds before they expired. Receiving this additional money allowed Indiana to avoid any negative repercussions from declining federal allotments in FFY 02-04. It is projected that Indiana will have sufficient federal match available to continue the CHIP program with the current eligibility criteria until FFY08. Any change in current eligibility criteria or a reduction in federal allotments shown above could cause Indiana to be in a situation where spending would exceed federal allotments.

**Table 9**
**Expenditure of CHIP Allotment**

| Federal Fiscal Year | Reversion Date | Allotment (millions) | State Fiscal Year Expended |
|---|---|---|---|
| 2001 | 9/30/2003 | $61.0 | SFY 2004 |
| 2002 | 9/30/2004 | 47.0 | SFY 2005 |
| 2003 | 9/30/2005 | 53.7 | SFY 2006 |
| 2004 | 9/30/2006 | 54.0 | SFY 2007 |
| 2005 | 9/30/2007 | 73.4 | SFY 2008 |
| 2006* | 9/30/2008 | 73.4 | SFY 2009 |

Note: * Estimated amount, the allotment has not been established for this fiscal year.

## LAWSUITS

**A. Kraus v. Hamilton (formerly Bennett v. Humphreys)**
This case was filed in St. Joseph Superior Court December 2000. Plaintiffs are seeking class certification and are persons with developmental disabilities claiming the operation of the Indiana Medicaid program violates the Americans with Disabilities Act (as interpreted by the U.S. Supreme Court in Olmstead) because plaintiffs allegedly have not received services in the least restrictive setting appropriate to their needs. The State entered into a settlement with the plaintiffs that was approved by the court on September 23, 2004.

B. **Amhealth v. FSSA**
This case was brought against the State by nursing homes challenging the emergency rulemaking procedure followed in implementing Phase I nursing home cost containment. Plaintiff nursing homes obtained an injunction to prevent OMPP from enforcing Phase I emergency rules on October 1, 2001. However, the State prevailed on appeal. The case is currently pending in the trial court for a determination of the amount the State is owed in restitution. The fiscal impact is $9.5 M million (state), which represents the amount lost by not realizing the anticipated savings from the emergency rules.

**C. Gorka v. FSSA**
This case was filed by a class of transportation providers and some individual Medicaid recipients in Marion Superior Court September 1993 alleging violations of state and federal law resulting in inadequate reimbursement for transportation services. The case has a complex procedural history involving removal to federal court where the state prevailed, and an appeal where that decision was overturned. Back in state court, the agency again prevailed on the state law claims (a decision that was affirmed on appeal). However, the federal law claims were decided against the state on June 24, 2004, in a non-final order. Under the trial court's decision, the agency is required to develop a cost-based reimbursement methodology for transportation, recalculate rates and report the findings to the court. The fiscal impact is unknown.

**D. Pediatric Dentistry North v. State of Indiana**
This case was filed in Johnson Superior Court on June 24, 1998. A class of pediatric dental providers has been certified. The class challenges allegedly inadequate dental rates that were in effect prior to 1998. The trial court has dismissed the federal claims against the state. State claims are to be set for trial. Fiscal is unknown although the plaintiffs' expert alleges under-reimbursement and damages of approximately $28 million.

**E. Thornton v. Hamilton**

This case was filed in federal court on November 27, 2002, and concerns the timeliness of Medicaid disability application determinations (federal law requires decisions to be made within 90 days of date of application). The State entered into a consent decree with the plaintiffs and is implementing changes to processes and procedures in order to more efficiently process applications.

## RISKS TO THE FORECAST

In addition to the enrollment sensitivity and lawsuits already mentioned, another risk is forecasting limitations. This forecast relied upon paid claims data through October 31, 2004. To the extent that the incurred claims data was not complete, the values presented in the forecast may be revised at a later date when more complete data is available. As with any incurred forecast, actual expenditures may be higher or lower than currently projected.

Two final risks are legislation and cost containment. If legislation is passed that either expands the Medicaid program or otherwise mandates changes that result in additional expenditures, this forecast will increase. Similarly, if cost containment measures that have been enacted are repealed, either legislatively or in litigation, total Medicaid forecasted expenditures will increase.

**EXPENDITURE FORECAST: FY 2002 - FY 2007**
**MEDICAID AND CHIP PROGRAMS**
Final SFY 06/07Forecast - Submitted with Data through October 2004
(State and Federal Dollars in Millions)

| EXPENDITURES | FY 2002 | Growth | FY 2003 | Growth | FY 2004 | Growth | FY 2005 | Growth | FY 2006 | Growth | FY 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-Long Term Care Services** | | | | | | | | | | | |
| Hospital -- Inpatient and Outpatient | $576.1 | *(10.0%)* | $518.4 | *6.0%* | $549.5 | *(4.0%)* | $527.4 | *0.3%* | $528.7 | *8.9%* | $575.7 |
| Inpatient Psychiatric | 35.1 | *5.8%* | 37.1 | *13.5%* | 42.2 | *9.9%* | 46.3 | *13.3%* | 52.5 | *12.8%* | 59.2 |
| Drugs | 635.6 | *0.4%* | 638.0 | *13.5%* | 724.3 | *11.3%* | 806.1 | *5.6%* | 851.4 | *7.5%* | 915.3 |
| Physician Services | 222.2 | *(8.8%)* | 202.6 | *9.1%* | 221.0 | *1.9%* | 225.1 | *11.1%* | 250.1 | *13.4%* | 283.7 |
| Lab and X-ray Services | 32.4 | *(5.4%)* | 30.6 | *11.6%* | 34.2 | *6.1%* | 36.2 | *8.0%* | 39.2 | *14.6%* | 44.9 |
| Dental | 124.0 | *5.6%* | 131.0 | *(2.1%)* | 128.2 | *11.1%* | 142.4 | *11.4%* | 158.6 | *10.8%* | 175.8 |
| Home Health Services | 52.9 | *(0.9%)* | 52.4 | *15.2%* | 60.4 | *28.3%* | 77.5 | *9.7%* | 85.0 | *11.8%* | 95.0 |
| Mental Health Services | 40.1 | *4.3%* | 41.8 | *8.2%* | 45.3 | *8.6%* | 49.2 | *12.1%* | 55.1 | *10.6%* | 61.0 |
| Other Services | 194.7 | *5.0%* | 204.5 | *(0.3%)* | 204.0 | *10.6%* | 225.6 | *7.6%* | 242.8 | *12.9%* | 274.0 |
| **Subtotal - Non-LTC** | 1913.1 | *(3.0%)* | $1,856.4 | *8.2%* | $2,009.0 | *6.3%* | $2,135.8 | *6.0%* | $2,263.4 | *9.8%* | $2,484.6 |
| **Capitation Payments and PCCM Fees** | | | | | | | | | | | |
| Capitation Payments | $222.8 | *66.3%* | 370.6 | *20.2%* | 445.6 | *31.1%* | 584.0 | *26.6%* | 739.4 | *8.3%* | 800.7 |
| PCCM Fees | 11.0 | *(24.6%)* | 8.3 | *19.2%* | 9.9 | *(6.3%)* | 9.3 | *(8.0%)* | 8.5 | *4.3%* | 8.9 |
| **Subtotal - Other Non-LTC Payments** | $233.8 | *62.0%* | $378.9 | *20.2%* | $455.5 | *30.2%* | $593.3 | *26.1%* | $748.0 | *8.2%* | $809.6 |
| **Total Non-LTC Payments** | $2,147.0 | *4.1%* | $2,235.3 | *10.3%* | $2,464.5 | *10.7%* | $2,729.1 | *10.3%* | $3,011.4 | *9.4%* | $3,294.2 |
| **Long Term Care & Waiver Services** | | | | | | | | | | | |
| Nursing Facility | $845.4 | *(7.9%)* | 778.3 | *1.8%* | 792.3 | *2.5%* | 812.3 | *4.4%* | 848.3 | *5.4%* | 894.1 |
| ICF/MR | 333.5 | *2.2%* | 340.9 | *(0.5%)* | 339.1 | *(3.2%)* | 328.3 | *(3.3%)* | 317.4 | *2.7%* | 325.9 |
| Small Group / Private Facilities | 245.4 | *(0.5%)* | 244.1 | *(1.6%)* | 240.1 | *1.9%* | 244.8 | *2.8%* | 251.6 | *3.6%* | 260.7 |
| State Facilities | 88.1 | *9.8%* | 96.8 | *2.2%* | 99.0 | *(15.6%)* | 83.5 | *(21.2%)* | 65.8 | *(1.0%)* | 65.1 |
| Waivers (including Case Management Services) | 173.0 | *69.1%* | 292.5 | *39.3%* | 407.5 | *15.1%* | 469.0 | *17.4%* | 550.8 | *12.8%* | 621.2 |
| OMPP | 109.6 | *29.3%* | 141.6 | *27.8%* | 181.0 | *15.1%* | 208.4 | *16.0%* | 241.8 | *12.7%* | 272.5 |
| DDARS | 63.4 | *137.9%* | 150.9 | *50.1%* | 226.4 | *14.7%* | 259.8 | *18.1%* | 306.8 | *12.8%* | 345.9 |
| DMHA | | | | | | | 0.7 | *212.5%* | 2.2 | *33.3%* | 2.9 |
| **Subtotal - LTC & Waiver** | $1,352.0 | *4.4%* | $1,411.7 | *9.0%* | $1,538.9 | *4.6%* | $1,609.6 | *6.6%* | $1,716.5 | *7.3%* | $1,841.2 |
| **Medicare Buy-In** | $68.3 | *15.1%* | $78.7 | *23.4%* | $97.1 | *26.4%* | $122.7 | *23.2%* | $151.2 | *22.9%* | $185.8 |
| **HCI** | 48.3 | *4.6%* | 50.6 | *5.0%* | 53.1 | *5.1%* | 55.8 | *(100.0%)* | 0.0 | *0.0%* | 0.0 |
| **Disproportionate Share Payments** | 147.2 | *(28.3%)* | 105.5 | *(10.7%)* | 94.2 | *(0.6%)* | 93.7 | *2.4%* | 95.9 | *2.3%* | 98.1 |
| **Rebates and Collections** | ($167.5) | *(0.3%)* | ($167.0) | *15.9%* | ($193.6) | *25.7%* | ($243.3) | *(7.9%)* | ($224.2) | *(12.3%)* | ($196.6) |
| **Mental Health Rehab** | 186.9 | *14.6%* | 214.3 | *16.7%* | 250.1 | *12.7%* | 281.8 | *14.2%* | 321.9 | *13.2%* | 364.4 |
| **ARCH** | 5.2 | *6.7%* | 5.5 | *0.0%* | 5.5 | *0.0%* | 5.5 | *0.0%* | 5.5 | *0.0%* | 5.5 |
| **Psychiatric Residential Treatment Facilities** | | | | | | | | | 30.9 | *12.5%* | 34.7 |
| **Total Expenditures (State and Federal)** | **$3,787.3** | ***3.9%*** | **$3,934.5** | ***9.5%*** | **$4,309.8** | ***8.0%*** | **$4,654.8** | ***9.8%*** | **$5,108.9** | ***10.1%*** | **$5,627.3** |
| Medicaid Assistance (Incl. ARCH) | 3,719.3 | *3.8%* | 3,859.7 | *9.5%* | 4,225.5 | *7.9%* | 4,559.1 | *9.6%* | 4,995.3 | *10.1%* | 5,498.0 |
| CHIP Assistance | 68.0 | *9.9%* | 74.7 | *12.7%* | 84.2 | *13.6%* | 95.7 | *18.7%* | 113.6 | *13.9%* | 129.3 |
| **Total Expenditures (State Share)** | 1,431.4 | *1.8%* | 1,456.9 | *2.5%* | 1,492.9 | *15.7%* | 1,726.9 | *8.9%* | 1,881.2 | *10.9%* | 2,087.0 |

**Notes:**

**1. Other Non-LTC services includes DME, Transportation, Chiropractor, Hospice, Optometry, Dialysis, Targeted Case Management and Other services.**

**2. Rebates and Collections includes third party liability recoveries, prescription drug rebates (OBRA '90 and supplemental), and Package C and M.E.D. Works premiums.**

**3. The OBRA '90 pharmacy rebate was increased from 21% to 23.2% starting in SFY2005.**

**4. A separate account was created for HCI funds per IC12-15-20-2. Payments associated with this line item will now come directly from that account.**

**5. Federal fiscal relief impacts SFY 2003 and SFY 2004. Additional federal matching of 3.02% from April 2003 - September 2003 and 2.95% from October 2003 - June 2004.**

**APPENDIX B - FUNDING SOURCES: SFY 2004 - SFY 2005**
**MEDICAID AND CHIP PROGRAMS**
(State Dollars in Millions)

| | SFY '04 | | SFY '05 |
|---|---|---|---|
| **Forecasted Expenditures - State Share** | **1,492.9** | | **1,726.9** |
| **Muscatatuck State Developmental Center[1]** | | | **$3.6** |
| | | | |
| **Interfund Transfers** | | | |
| HCI Fund Transfer | ($41.4) | | ($42.5) |
| Med. Indigent Care Trust Fund | ($25.0) | | ($25.0) |
| CHIP Transfer | ($22.1) | | (25.0) |
| Division of Disability, Aging and Rehab Services | | | |
| *Group Home Day Services* | ($7.4) | | ($7.4) |
| *In-Home Services (CHOICE)* | ($5.6) | | ($6.5) |
| *Developmentally Disabled Client Services* | ($85.2) | | (97.0) |
| Division of Mental Health and Addictions | | | |
| *Community Mental Health Rehab Option* | ($84.4) | | (105.2) |
| *Seriously Emotionally Disturbed* | | | (0.3) |
| *State Institution DSH Transfers* | ($38.8) | | ($35.0) |
| DOE Transfer | ($2.4) | | ($3.0) |
| Medicaid ICF/MR Assessment Account | ($10.0) | | ($14.2) |
| County Medical Assistance to Wards | ($9.5) | | ($13.1) |
| **Interfund Transfers** | ($331.7) | | ($374.1) |
| | | | |
| **Revenue (One-Time and Ongoing)** | ($26.6) | | ($15.2) |
| **Cash/Incurred Adjustment** | $0.9 | | ($10.6) |
| | | | |
| **Fiscal Relief FFP[2]** | ($30.1) | | $0.0 |
| | | | |
| **Forecasted Expenditures - Medicaid GF Assistance** | $1,105.4 | | $1,330.6 |
| **GF Appropriation** | $1,209.6 | | $1,209.6 |
| | | | |
| **Shortfall/Surplus** | $104.2 | | ($121.0) |
| **Carryover from FY03** | $26.7 | | |
| **Reversion to General Fund** | **$130.9** | | |

1. This forecast assumes that Muscatatuck State Development Center will close on March 31, 2005. Delaying this closure will add an additional 1.2M (state dollars) per month to this total.

2. Fiscal Relief FFP is the one-time federal fiscal relief from SFY '03 that OMPP was unable to receive until SFY '04 due to administrative procedures associated with the new law. The SFY '04 one-time federal fiscal relief is incorporated in the projections in Appendix A.

3. This forecast does not include Mental Health Rehab Option (MRO) Expansion, Psychiatric Residential Treatment Facility expansion or eligibility for Silvercrest and Soldiers and Sailors. Although those would be additional expenditures and would increase overall Medicaid expenditures, assuming they are pass-throughs for Medicaid, they would not have a net effect on the Medicaid Assistance expenditures/appropriation.

4. HCI Fund Transfer and County Medical Assistance to Wards are funded in part by property taxes. The amounts shown assume that all revenue sources will be collected and available in the fiscal year. To the extent that payments are delayed / outstanding these amounts could be shifted to the next fiscal year.

| APPENDIX B - FUNDING SOURCES: SFY 2006 - SFY 2007<br>MEDICAID AND CHIP PROGRAMS<br>(State Dollars in Millions) | | | |
|---|---|---|---|
| | **SFY '06** | | **SFY '07** |
| **Forecasted Expenditures - State Share** | **1,881.2** | | **2,087.0** |
| ***Interfund Transfers*** | | | |
| HCI Fund Transfer | ($21.7) | | ($21.7) |
| CHIP Transfer | (29.5) | | (33.5) |
| **Division of Disability, Aging and Rehab Services** | | | |
| *Group Home Day Services* | ($7.4) | | ($7.4) |
| *In-Home Services (CHOICE)* | ($6.7) | | ($7.0) |
| *Developmentally Disabled Client Services* | (113.7) | | (129.2) |
| **Division of Mental Health and Addictions** | | | |
| *Community Mental Health Rehab Option* | (119.3) | | (136.1) |
| *Seriously Emotionally Disturbed* | (0.8) | | (1.1) |
| *State Institution DSH Transfers* | ($35.7) | | ($36.8) |
| **Division of Family and Children** | | | |
| *Psychiatric Residential Treatment Facilities* | (11.4) | | (13.0) |
| DOE Transfer | ($3.8) | | ($4.4) |
| Medicaid ICF/MR Assessment Account | ($15.6) | | ($15.7) |
| County Medical Assistance to Wards | ($14.1) | | ($14.2) |
| **Interfund Transfers** | ($379.6) | | ($419.9) |
| **Cash Adjustment** | ($14.3) | | ($18.8) |
| **Forecasted Expenditures - Medicaid GF Assistance** | $1,487.3 | | $1,648.4 |

1. This forecast does not include Mental Health Rehab Option (MRO) Expansion or eligibility for Silvercrest and Soldiers and Sailors. Although those would be additional expenditures and would increase overall Medicaid expenditures, assuming they are pass-throughs for Medicaid, they would not have a net effect on the Medicaid Assistance expenditures/appropriation.

2. HCI Fund Transfer and County Medical Assistance to Wards are funded in part by property taxes. The amounts shown assume that all revenue sources will be collected and available in the fiscal year. To the extent that payments are delayed / outstanding these amounts could be shifted to the next fiscal year.

**State of Indiana**
**Office of Medicaid Policy and Planning**
**Cost Containment Impact Analysis - As of December 2004 Budget Forecast - Data through October 2004**

| | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|---|---|---|
| **Including Cost Containment** | | | | | | |
| Total Expenditures (State Share) | $ 1,431.4 | $ 1,456.9 | $ 1,492.9 | $ 1,726.9 | $ 1,881.2 | $ 2,087.0 |
| | | | | | | |
| **Itemized Cost Containment Savings (State Dollars)** | | | | | | |
| Hospital Rebasing (Oct 2001) | $ 7.7 | $ 9.6 | $ 9.6 | $ 9.8 | $ 9.7 | $ 10.6 |
| Mandatory Risk Based Managed Care (RBMC) | 0.4 | 3.6 | 6.1 | 8.7 | 12.0 | 17.5 |
| Nursing Home Other | 1.5 | 15.2 | 14.6 | 15.7 | 16.3 | 17.3 |
| Pharmacy (AWP, MAC, Dispensing Fees, Copays) | 1.1 | 14.8 | 15.8 | 18.1 | 15.2 | 12.5 |
| Nursing Home Inflationary Reduction Factor | - | 10.9 | 10.2 | 11.0 | 11.4 | 12.1 |
| Nursing Home Direct Care Profit Add-on | - | 11.1 | 10.3 | 11.2 | 11.6 | 12.3 |
| Nursing Home Minimum Occupancy | - | 3.4 | 3.2 | 3.4 | 3.5 | 3.7 |
| Pharmacy - Preferred Drug List | - | 1.8 | 3.2 | 3.7 | 3.1 | 2.6 |
| Dental Cap & Other Policy Changes | - | 5.0 | 9.5 | 11.3 | 12.2 | 13.2 |
| Continuous Eligibility Revisions | - | 12.0 | 14.4 | 16.5 | 18.4 | 20.7 |
| Non-LTC Medicare Cross-over Reimbursement | - | 29.1 | 31.3 | 36.3 | 39.8 | 44.7 |
| Eligiblity Loopholes | - | 7.2 | 6.7 | 7.2 | 7.1 | 7.2 |
| Exclusion Hospital Inflationary Adj (CY 2003 - 2005) | - | 2.6 | 7.9 | 13.6 | 13.7 | 14.9 |
| New Collection Initiatives | - | - | 2.8 | 3.0 | 3.0 | 3.0 |
| Medicaid Select ABD-PCCM Program | - | - | 1.2 | 2.5 | 2.9 | 3.5 |
| Pharmacy - Generic Copay Increase | - | - | 0.6 | 4.1 | 3.5 | 2.9 |
| Developmentally Disabled Waiver Cost Containment | - | - | 3.5 | 11.0 | 11.4 | 11.7 |
| Mandatory RBMC Southern Counties | - | - | - | 0.5 | 4.2 | 6.2 |
| Pharmacy - State MAC for Legend Drugs | - | - | - | 0.4 | 1.0 | 0.6 |
| Supplemental Rx Rebates | - | - | - | 4.7 | 7.3 | 6.1 |
| Hospital Reimbursement Changes (Nov 2004) | - | - | - | 9.0 | 13.3 | 14.5 |
| Sub-total | $ 10.7 | $ 126.2 | $ 150.8 | $ 201.7 | $ 220.7 | $ 237.8 |

Notes:

1. Reduced Pharmacy savings occur in FY 2006 and FY 2007 due to impact of MMA and Exclusion of Dual Eligible population.
2. Continuous eligibility impact is difficult to quantify and has been estimated on a trended basis for enrollment and cost.
3. Other cost containment initiatives that have been implemented (i.e. Disease Management) are included in the baseline Total Expenditures and not shown on a line item basis.

## State of Indiana
## Office of Medicaid Policy and Planning
### Fiscal Year End Enrollment Summary
### (data through October 2004)

| | Eligible Members | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Population | June 2002 | % Increase | June 2003 | % Increase | June 2004 | % Increase | June 2005 | % Increase | June 2006 | % Increase | June 2007 |
| Aged | 56,402 | 1.0% | 56,962 | -0.7% | 56,578 | 1.0% | 57,167 | 0.8% | 57,595 | 1.0% | 58,171 |
| Blind & Disabled (Non-Dual) | 56,224 | 8.9% | 61,255 | 4.4% | 63,957 | 5.5% | 67,470 | 5.0% | 70,844 | 4.5% | 74,032 |
| Blind & Disabled (Dual) | 30,922 | 9.8% | 33,961 | 7.8% | 36,623 | 6.6% | 39,036 | 7.0% | 41,768 | 6.5% | 44,483 |
| **Total Aged, Blind & Disabled** | **143,548** | **6.0%** | **152,178** | **3.3%** | **157,158** | **4.1%** | **163,673** | **4.0%** | **170,207** | **3.8%** | **176,686** |
| Partials - Aged | 8,736 | -5.7% | 8,240 | 4.6% | 8,620 | 11.7% | 9,628 | 74.8% | 16,829 | 64.5% | 27,689 |
| Partials - DAB Dual | 8,470 | -2.1% | 8,293 | 14.6% | 9,500 | 20.3% | 11,430 | 7.5% | 12,287 | 5.0% | 12,902 |
| **Total Partials** | **17,206** | **-3.9%** | **16,533** | **9.6%** | **18,120** | **16.2%** | **21,058** | **38.3%** | **29,116** | **39.4%** | **40,591** |
| TOTAL TANF & CHIP | | | | | | | | | | | |
| Adults | 83,938 | 11.2% | 93,380 | 8.1% | 100,915 | 6.6% | 107,607 | 6.0% | 114,063 | 4.0% | 118,625 |
| Children | 424,258 | -1.1% | 419,519 | 5.0% | 440,305 | 4.3% | 459,241 | 4.0% | 477,611 | 3.2% | 493,133 |
| CHIP I | 40,993 | 10.1% | 45,120 | 5.6% | 47,669 | 5.9% | 50,485 | 4.2% | 52,631 | 3.5% | 54,473 |
| CHIP II | 10,021 | 38.9% | 13,920 | 16.5% | 16,221 | 28.9% | 20,916 | 16.0% | 24,262 | 12.5% | 27,295 |
| Mothers | 20,812 | 7.5% | 22,381 | 4.6% | 23,400 | 3.2% | 24,146 | 3.5% | 24,991 | 2.0% | 25,491 |
| **Total TANF & CHIP** | **580,022** | **2.5%** | **594,320** | **5.8%** | **628,509** | **5.4%** | **662,395** | **4.7%** | **693,558** | **3.7%** | **719,017** |
| **TOTAL** | **740,776** | **3.0%** | **763,031** | **5.3%** | **803,786** | **5.4%** | **847,126** | **5.4%** | **892,881** | **4.9%** | **936,294** |

**Note:**

1. The enrollment forecast includes potential increased enrollment in the partials aged eligibilty category due to the Medicare Modernization Act. Of total potential eligibles, the forecast assumes 10% participation in CY 2006 and 25% participation in CY 2007.

**State of Indiana**
**Office of Medicaid Policy and Planning**
Fiscal Year 2002 through Fiscal Year 2007 Expenditure Summary

**Expenditure Summary (millions)**

| | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|---|---|---|
| **Total Expenditures (State & Federal)** | $3,787.3 | $3,934.5 | $4,309.8 | $4,654.8 | $5,108.9 | $5,627.3 |
| **Total Expenditures (State Share)** | $1,431.4 | $1,456.9 | $1,492.9 | $1,730.5 | $1,881.2 | $2,087.0 |
| **State Interfund Transfers & Revenue** | $324.4 | $274.0 | $387.5 | $399.9 | $393.9 | $438.6 |
| **Medicaid Assistance Appropriation** | $1,107.1 | $1,182.9 | $1,105.4 | $1,330.6 | $1,487.3 | $1,648.4 |

**Rates of Growth**

| | FY 02 - 03 | FY 03 - 04 | FY 04 - 05 | FY 05 - 06 | FY 06 - 07 | 5 - Year Annual Rate |
|---|---|---|---|---|---|---|
| **Total Expenditures (State & Federal)** | | | | | | |
| **Enrollment** | 4.3% | 5.3% | 5.2% | 5.3% | 5.1% | 5.0% |
| **Population Mix** | 1.8% | 0.5% | (0.6%) | (0.5%) | (0.9%) | 0.1% |
| **Per Member Per Month Cost** | (1.9%) | 4.2% | 6.0% | 5.4% | 5.0% | 3.7% |
| **Residual** | (0.3%) | (0.7%) | (2.6%) | (0.6%) | 0.7% | (0.7%) |
| **Total Expenditures (State & Federal)** | 3.9% | 9.5% | 8.0% | 9.8% | 10.1% | 8.2% |
| **Change in State Match Rate** | (2.0%) | (6.5%) | 7.1% | (0.7%) | 0.7% | (0.4%) |
| **Total Expenditures (State Share)** | 1.8% | 2.5% | 15.9% | 8.7% | 10.9% | 7.8% |
| **Change in Impact of State Interfund Transfers & Revenue** | 5.0% | (8.8%) | 4.1% | 2.6% | (0.1%) | 0.4% |
| **Medicaid Assistance Appropriation** | 6.9% | (6.6%) | 20.4% | 11.8% | 10.8% | 8.3% |

**Cost Containment Expenditure Summary (millions)**

| | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | 5 - Year Annual Rate |
|---|---|---|---|---|---|---|---|
| **Total State Expenditures with Cost Containment** | $1,431.4 | $1,456.9 | $1,492.9 | $1,730.5 | $1,881.2 | $2,087.0 | 7.8% |
| **Cost Containment Impact** | 10.7 | 126.2 | 150.8 | 201.7 | 220.7 | 237.8 | |
| **Total State Expenditures without Cost Containment** | $1,442.1 | $1,583.1 | $1,643.7 | $1,932.2 | $2,101.9 | $2,324.8 | 10.0% |
| **Biennium State Dollars Saved** | $136.9 | | $352.5 | | $458.5 | | |
| | 4.5% Savings | | 9.9% Savings | | 10.4% Savings | | |

**Rates of Growth**

| **Benchmark Trend Rates - National Health Expenditures** | FY 02 - 03 | FY 03 - 04 | FY 04 - 05 | FY 05 - 06 | FY 06 - 07 | 5 - Year Annual Rate |
|---|---|---|---|---|---|---|
| **Medicaid - Total U.S.** | 9.5% | 8.1% | 8.9% | 9.1% | 9.2% | 9.0% |

| | |
|---|---|
| **Total Expenditures (State Share) Without Cost Containment** | 7.8% 10.0% |

# Medicare Modernization Act (MMA)
# Fiscal Impact Summary

Expenditures Due to MMA

- Clawback. Monthly contribution states will pay to the feds to cover the cost of prescription drugs for the duals.
- Enrollment Increase ("Woodwork Effect"). Increase in dual eligible (QMB, SLMB, possibly full duals) enrollees due to the requirement that states screen individuals for eligibility and enrollment for other medical assistance programs.
- Part B Deductible Increase. In 2005, the deductible increases from $100 to $110. Going forward, the deductible will increase at the actual rate of growth for Part B.
- Administrative Requirements. Additional expenses states will incur in fulfilling their responsibility to determine eligibility for the low income subsidy.
- Best Price. Drugs under Part D are excluded from the calculation of best price. This is likely to result in an increase in drug expenditures for the remainder of the Medicaid population (all non-duals). Unable to quantify cost at this time.

Potential Expenditures Due to MMA (*referred to as "wraparound" below and assumes there will be no wraparound/augmentation for duals due to budget constraints)

- Cost sharing for duals. Example: copays.
- Coverage gap. Drugs for duals not enrolled in a Prescription Drug Plan (PDP) on January 1, 2006 when Medicaid coverage and federal financial participation ends.

Ongoing Expenditures Related to MMA and/or Medicare:

- Drugs not covered by Part D (for duals). Example: Over the Counter drugs. These drugs were approximately $11.5 M, or $4.3 M state, in SFY 2004.
- Drugs to be covered by Part B (for duals). These drugs were approximately $9.1 M, or $3.4 M state, in SFY 2004.
- Increase in Part A and Part B premiums. Estimated at $3.6 M for SFY 2006 and $10.6 M for SFY 2007 (estimates are state dollars).

| | **SFY 2006 (State $$)** | **SFY 2007 (State $$)** |
|---|---|---|
| **Expenditures** | | |
| Increased Enrollment[1] | $1.7 M | $6.6 M |
| Part B Deductible | $ 0.6 M | $0.8 M |
| Administrative Requirements | TBD – somewhat dependent on final regs | TBD |
| Potential Wraparound | $0 | $0 |
| **Savings** | | |
| Clawback | ($0.0) M | ($4.4) M |
| | | |
| **Net Fiscal Impact** | **$2.3 M + admin costs** | **$3.0 M + admin costs** |

[1] Based on 2000 Census data, there are approximately 129,300 residents over 65 who are at or below 120% of poverty. Currently, there are approximately 65,200 already on Medicaid, thereby leaving a potential pool of new eligibles of 64,100. This estimate assumes 10% of potential eliglbles will enroll in CY 2006 and 25% in CY 2007 (assumes additions will be partial eligibles, as opposed to full dual eligibles).

**Clawback – Expected Savings vs. Actual Savings**

With the clawback, theoretically, states should have saved 10% of their spending on dual eligible drug expenditures. However, due to the criteria for calculating the clawback, states will not recognize that level of savings. The example below illustrates the difference based on the following values:

| | |
|---|---|
| Projected Spending for dual Rx in CY 2006 assuming no Part D (Includes Part D covered drugs only) | $339.2 M |
| Baseline value used for calculation of clawback payment | $368.8 M |

| Clawback Calculation & Comparison | |
|---|---|
| Clawback payment (90% of baseline value) | $331.9 M |
| Difference between projected spend without Part D ($339.2-$331.9) | $ 7.3 M |
| State share of savings (approximately 37%) | $ 2.7 M |
| Actual savings as % of projected spending (2.7M/$125.5M*) | 2.2% |

*$125.5 is the approximate state share of the $339.2 M baseline w/o Part D

| Difference In Savings – 2.2% vs expected 10% | |
|---|---|
| Expected savings due to clawback | 10.0% |
| Actual projected savings | 2.2% |
| Difference | 7.8% |

| Reasons for Difference | |
|---|---|
| OBRA 90 rebates | 2.2% |
| Supplemental rebates | 2.8% |
| Other cost containment that lowered trend below 2003 baseline | 2.8% |
| Total impact due to increase baseline used for clawback | 7.8% |
| Lost "expected" savings (7.8% of $125.5 M) | $ 9.8M |

Please note that the $ 2.7 M, or 2.2%, estimated savings during calendar year 2006 will be reduced by increased costs associated with higher enrollment, additional administrative requirements, and higher Part B deductibles.

In summary, the reason for the lower savings (2.2% vs. 10.0%) is based on the calculation methodology employed under MMA. The calculation requires a projection from calendar year 2003 data with a standard set of national trend rates. Based on the MMA formula, the baseline amount for the calculation of Indiana's clawback payment will be approximately $368.8 M, rather than the $339.2 M. The projected spending is lower than the clawback calculated baseline rate due to factors (e.g. cost containment, increased OBRA 90 rebate collection percentage) that have reduced the actual trend rate below the national trend rates for pharmacy expenditures but that were not yet reflected in the 2003 baseline amount. By being locked in to the 2003 baseline amount, the State will not see the benefit from having slowed the rate of growth and will pay a larger clawback due to use of the inflated 2003 baseline.